THE INSTITUTE OF CHARTERED ACCOUNTANTS (GHANA)

INTEGRITY

NOVEMBER 2005 EXAMINATIONS
(PROFESSIONAL)

PART 2

TAXATION
(Paper 2.4)

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

Johnson and Co Limited is a company which has been authorized by the Commissioner of Internal Revenue Service to self assess its chargeable income and tax.

For the 2005 year of assessment, the company duly submitted its estimate of chargeable income and tax thereon.

Details are as follows:

	¢
Chargeable Income	4,000,000,000
Tax charged	1,120,000,000

On 25th June, 2005 the company submitted a revised estimate to the commissioner showing the following:

	¢
Chargeable Income	2,500,000,000
Tax charged	700,000,000

The revised estimate was in accordance with the provisions of the Internal Revenue Act 2000 (Act 592) and was accepted by the commissioner.

Required:

(a) State the due dates for payment of the quarterly instalments in the year 2005.

(b) Provide the formula for determination of the quarterly instalments and determine the Tax due for each quarter of the year 2005.

(c) Under what circumstances can the commissioner refuse to accept the revised estimate submitted by Johnson and Company Limited?

(Total: 20 marks)

QUESTION 2

XY Company Limited, a subsidiary of Hope Ghana Limited has been in distress for several years. The Directors decided to liquidate with effect from January 1, 2005.

The Company has the following assets:

ASSETS	MARKET VALUE
	¢
Buildings	500,000,000
Two saloon cars	100,000,000
Stocks	50,000,000
Office Equipment	20,000,000
Patents	30,000,000
TOTAL	**700,000,000**

Hope Ghana Limited agreed to take over all the assets at a value of ¢500,000,000.

Required:

(a) Which of the assets taken over are subject to capital Gains Tax?

(b) What is the consideration to be used in computing the capital Gains Tax in respect of each chargeable asset?

(Total: 20 marks)

QUESTION 3

(a) The Internal Revenue Act 2000 (Act 592) requires that capital allowances should be granted on depreciable assets which meet certain conditions.
State these conditions.

(b) A depreciable asset which is not in existence at the end of a basis period may qualify for depreciation allowance.
Under what circumstances is this possible?

(c) A manufacturing company has the following capital allowance balances (residues) for various assets as at January 1, 2001.

	¢'000
Manufacturing plant	15,500,000
Furniture and fittings	120,000
Computers	85,000
Motor Vehicles	400,000

In the year 2002 the company acquired an asset management software at a cost of ¢50,000,000. The software was put out of use in January 2003 when the company acquired a more comprehensive accounting software at the cost of ¢120,000,000.

In January 2002 the company sold all its motor vehicles to a leasing company for ¢500,000,000. Management then decided to lease all its operational vehicles from the same company at an annual rental of ¢100,000,000.

The company's financial year end is December 31 and the following are the agreed assessable income:

	¢
Year to 31/12/2001	4,000,000
Year to 31/12/2002	8,000,000
Year to 31/12/2003	(5,000,000)
Year to 31/12/2004	10,000,000

Required:

Calculate the depreciation allowance due to the company for the four years using the following depreciation rates:

Pool 1	40%
Pool 2	30%
Pool 4	20%
Class 5	10% (cost base)

(Total: 25 marks)

QUESTION 4

(a) Under what circumstances will the Commissioner of VAT allow an input tax credit in the tax period in which the credit arises, when the taxable person does not have a tax invoice? (10 marks)

(b) Both the Value Added Tax Service and the Customs, Excise and Preventive Service administer indirect taxes.

What are the main differences between Value Added Tax and Excise Duty? (10 marks)

(Total: 20 marks)

QUESTION 5

Mr Amankwah, a Deputy Minister, has a son in the United States of America. He facilitated the travel arrangements of Mr Agbozo, a classmate, to London.

In appreciation of the help given to him by Mr Amankwah, Mr Agbozo decided to pay the school fees of Mr Anamkwah's son.

The total amount of fees paid was ¢20,000,000 in the year 2005.

Required:

(a) Is the amount liable to gift Tax and Why?

(b) Who is to submit the required gift tax return and within what time limit?

(c) How much tax, if any, is due to the Commissioner?

(Total: 15 marks)